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# U.S. TRADE AND DEVELOPMENT AGENCY



## EXECUTIVE SUMMARY

### **Market Assessment & Feasibility Study Report: Establishment of an Equipment Leasing Company in Bosnia and Herzegovina**

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BH Leasing was formed in 1996 for leasing heavy equipment to enterprises in Bosnia and Herzegovina. The donor consortium consisting of the countries of Western Europe, USA and Japan including a host of other international institution and multilateral development organizations, such as, the World Bank, European Union, European Bank for Reconstruction and Development, US Agency for International Development, the Overseas Development Council co-financed nearly USD 5.1 billion for the programs for development of the war ravaged country.

Programs for reconstruction of the industry and the infrastructure consisted of sectoral development projects for rehabilitation of electric supply, transportation, health, water supply and demining. Some other projects addressed the humanitarian needs of the population, and the industrial re-start program was introduced to encourage investments.

Most of the sectoral development programs included requirements for equipment for the reconstruction and rehabilitation of the industry and infrastructure. Financing of the sectoral programs fell short by at least 40 percent of the total project cost and it seemed that leasing of the equipment would offset this shortfall. Therefore, BH Leasing presented a proposal to lease equipment for the reconstruction projects in Bosnia and Herzegovina. The International Finance Corporation indicated that the idea to setup a leasing company in Bosnia and Herzegovina, was already on their agenda, and they would support the proposed establishment of a joint venture company to lease heavy equipment. At the same time, the Central and Eastern European Business Information Center (CEEbIC) of the Department of Commerce endorsed the idea of leasing of heavy equipment manufactured by US companies. The US Trade & Development Agency approved a grant for a feasibility study for the "Establishment of an Equipment Leasing Company in Bosnia and Herzegovina". Unioninvest of Sarajevo was the grantee and the BH Leasing was selected as consultants for the implementation of the project.

BH Leasing through their contacts was able to find a reputable local Bosnian company Unioninvest to be the sponsor of the study. By July of 1998, with the funding from USTDA, BH Leasing decided to implement a study to assess the market for leasing of heavy equipment and analyze the feasibility of establishing a joint venture leasing company in Bosnia and Herzegovina. Assessment of the market for leasing of heavy equipment focused on three major sectors of the economy - i.e. the transportation sector, the energy sector and the construction and construction materials industry. Almost half of donor funding was directed at the reconstruction of these sectors, which received priority from the World Bank and other donors.

As of November 1, 1998, USD 325 million was spent on the energy sector, USD 260 million for the transportation sector, and USD 425 million for housing, USD 204 for water supply, and USD 85 for government buildings. The construction and construction materials industry received a significant portion of these funds spent on housing, government buildings, water supply system, roads and highways, bridges, and electrical generation, transmission and distribution, cantonal and municipal governments, and education.

The assessment of the leasing potentials involved meeting with officials of the World Bank who were in charge of implementing programs for the reconstruction and rehabilitation of the three sectors and responsible for administering investment guarantee programs, such as, the Political Guarantee Facility (PGF) and the multilateral investment guarantee agency (MIGA). Task

managers in each of the three sectors were interviewed regarding the status of priority reconstruction programs and requirements for equipment for implementation of the sectoral development projects. Task managers of the World Bank for the three sectors, gave encouraging responses on the potentials of leasing in Bosnia and Herzegovina. IFC the private sector lending arm of the World Bank who has promoted the establishment of leasing companies in the emerging markets indicated their interest in participating in the proposed joint venture. Overseas Private Investment Corporation (OPIC) also pledged support for leasing in Bosnia and Herzegovina. The European

Bank for Reconstruction & Development also pledged support for the establishment of the leasing company promising both equity and financing. Two of the largest and most stable and reputable banks in Sarajevo expressed interest in a strategic relationship with the joint venture company.

The study team conducted both primary and secondary research to obtain information on the present and future implementation of reconstruction and development programs in the three sectors. The requirements for equipment

needed for implementation of these programs indicated a potentially high demand for leasing. The constraints in the domestic financial sector significantly intensified the demand for foreign capital for financing the need for capital investments in the local economy. Major constraints are lack of commercial credit and loans and high interest rates.

Findings of the study indicate that there is a significant demand for leasing of heavy equipment for the coal mines and the three electric utility companies (Elektroprivredas). In the transport sector, airports, roads and highways, and the port of Ploce offer good prospects for leasing of heavy equipment. The construction and construction materials industry are also a ready market for both operational and financial leasing.

Financial pro-forma analysis shows that the investment will generate a 34 percent return (ROI). An initial investment of two million dollars (US) is needed to cover the first three years expenditures, including any contingencies. At least, twenty million dollars (US) will be required in the form of equity or debt financing for leases in the first year of operations. It is possible for the proposed leasing company to attain a target of USD 200 million in four years.

A survey of the transportation sector, energy sector and construction and construction materials industry revealed a robust demand for leasing. Heavy equipment, such as - dump trucks, bulldozers, excavators, asphalt plants, paving machinery, cranes, turbines and generators, substations, snow removal and winter maintenance equipment, concrete factory, quarry equipment, conveyors, and underground mining equipment, as well as, passenger and cargo transport aircraft, airport security, air navigation and control equipment, screening, batching and crushing plants are in high demand.

BH Leasing's market entry strategy would be to minimize risk by dealing with a select group of qualified buyers (potential lessees). All liabilities of the leasing company and clients will be

covered by insurance. Credit insurance for lease payment receivable is another means of reducing losses and gaining a larger market share. Guarantees from MIGA and the Investment Guarantee Agency are available to protect the foreign investment against political risks and expropriations.

BH Leasing comprises of a team of professionals in international development, international finance, management and technical areas of expertise. BH Leasing is a newly established company and shall be responsible for the management and operations of the joint venture. As the US partner to the joint venture, BH Leasing shall retain majority share in the joint venture company with 51 percent of the shares and Unioninvest owning 49 percent. Both parties agree to surrender shares proportion to their ownership in the company to subsequent partners joining the venture. BH Leasing will implement the study and work with the partners and potential investors in establishing and operating the leasing company. Hoffman International will act as the technical partner who will advise and assist in the establishment of the company and executing lease transactions.

BH Leasing initiated dialogue with various potential partners in the USA and in Bosnia and Herzegovina regarding collaboration in the proposed joint venture. The company established relationship with various suppliers and manufacturers of equipment in the United States and in Europe, such as, Caterpillar, Asea Brown Boveri, Ingersoll-Rand, Euclid-Hitachi, Artnadill Machinery, Williams Patent Crusher, Philips N.V., Detroit Diesel, Blaw Knox Paving, Harnislifefer Industries, General Electric, Nordberg, Tarmac Systems, Teknox Trading and Terex Cranes.

BH Leasing is in discussion with various international investors and development financing institutions for partnering, equity investments, building strategic relationships, and financing of the leasing company.

Recent reform of the financial laws and regulations and privatization laws are encouraging to the establishment and operations of financing and credit institutions in BiH. The economic environment also indicates that the anticipated growth of the private sector and export-oriented industries, and the privatization of state owned enterprises will generate substantial demand for leased equipment.

Detailed discussions on the economic, marketing, financial, technical and legal and regulatory Issues are given in the appropriate sections of this report. Also, this report contains the latest Laws on Foreign Investment in Bosnia-Herzegovina, a standard international lease agreement, and brochures of BH Leasing.

The study recommends the establishment of the leasing company in Bosnia and Herzegovina.